ALBERTA CAPITAL FINANCE AUTHORITY

Annual Report 2010

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DIRECTORS

Board of Directors

Appointed

C.F. Barth
F.W. Clarke
R. Gilmour
L.R. Gordon
T. Wiles

Elected

G. Huybregts	- Representing Class B shareholders
E.A. Gibbons	- Representing Class C shareholders
T. Thain	- Representing Class D shareholders
R. Ritter	- Representing Class E shareholders

Audit Committee

C.F. Barth	- Chair of the Audit Committee
H.N. Johnsrude	- Member
T. Thain	- Member

Officers

L.R. Gordon	- Chair of the Board
T. Thain	- Vice-Chair
T.S. Stroich	- President and Treasurer
L. Epp	- Vice-President
J. Hui	- Corporate Secretary and Assistant Treasurer

For more information, visit our website or contact:

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ORGANIZATION

Mission

To provide local authorities within the Province with flexible funding for capital projects at the lowest possible cost, consistent with the viability of the Alberta Capital Finance Authority.

Authority

The Alberta Capital Finance Authority is a non-profit Authority established in 1956 under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended.

Shareholders

The authorized stock of the Authority consists of the following shares with a par value of $10 each:

- 4,500 Class A, available only to the Crown
- 1,000 Class B, available only to municipal authorities (defined as including improvement districts, metis settlements, municipal districts, counties, special areas, and specialized municipalities) and to regional authorities (includes drainage districts, irrigation districts, regional airport authorities and regional services commissions), and health authorities (includes a non-profit corporation who owns an approved hospital, a regional health authority, and provincial health board)
- 750 Class C, available only to cities
- 750 Class D, available only to towns and villages
- 500 Class E, available only to educational authorities (includes school districts and divisions, colleges, technical institutes, universities and Northland School Division)

The business of the Authority is administered by a Board of Directors. The Lieutenant Governor in Council appoints up to five directors to represent the Class A common shareholder. Each of the other four classes of shareholders elects one director to the Board.

Loans

Maximum terms of loans for various projects are prescribed in the Authority's resolution relating to the terms and conditions for lending money to shareholders.

Financing

The Authority issues various debt obligations to obtain the funds necessary to finance loan requirements. These obligations of the Authority carry the unconditional guarantee of the Province of Alberta.

CHAIR'S REPORT

March 9, 2011

It is my pleasure and privilege to present the 54th Annual Report of the Alberta Capital Finance Authority for the year ended December 31, 2010 and to summarize its activities over the past year.

In October 2010, ACFA conducted its bi-annual "Consultative Survey" to gauge the satisfaction of shareholders with ACFA's business and communication practices. I would like to thank everyone who participated in the online survey as your comments and responses provide a key input into the development of ACFA's business plan and the measurement of its success in achieving its goals. There was a change in the manner of the survey to help provide ACFA and the Board with more insight and focus to understanding your responses. For those borrowers who used ACFA's advice and consultative services for loan preparation, 94% were very and somewhat satisfied of this service, a response which reflects the dedication and effort that staff put into helping ACFA's borrowers. The usefulness of ACFA's website, and the tools and guide to borrowing on that site, were very much appreciated by the users, 95% who indicated that they were very or somewhat satisfied with our website. In addition, our shareholders respond that they were 91% and 86% very satisfied respectively with the access and communication with ACFA management. Overall, shareholders were 82% satisfied with ACFA products and services and the Board specifically wants to recognize the stellar efforts of the ACFA staff in surpassing its goals of providing services to its shareholders.

This past year has again been very busy, with new loans issued of over $2.15 billion, a record annual issuance and maintaining the trend of increasing loans issued since 2003 when only $497 million in loans were issued. The large issuance of new loans and maturing debt necessitated the borrowing of over $6.126 billion, which was used to fund new loans, repay short-term debt and refinance maturing long-term debt. During the year a concerted effort was made to reduce short-term debt, debt with maturities of less than eighteen months, to longer term debt, and short-term debt was reduced from $1.538 billion in 2009 to $640 million at December 31, 2010. ACFA continues to borrow using three to five years floating rate notes as the current long-term market and swap market remains relatively unfavourable to pursuing this type of longer term financing. As well, after April 1, 2011 ACFA will no longer be borrowing in its own name and will borrow through the Province of Alberta. ACFA can save from 8 to 12 basis points using the Province borrowing on its behalf, then on-lending to ACFA.

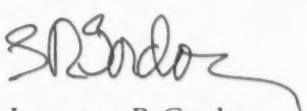
In 2010, ACFA measures loans, debt and derivatives at fair value which adds a significant amount of volatility to its income statement. Unrealized gains and losses are recognized in the income statement but as ACFA holds its loans, debt and derivatives to maturity, it is very unlikely that these unrealized gains and losses will ever be realized. ACFA recorded net income in 2010 of $123.7 million versus $214.2 million in 2009. Included in net income are net unrealized gains on loans, debt and

derivatives in the amount of $90.1 million and $191.4 million for the years ended 2010 and 2009, respectively. Of the retained earnings of $294.7 million, $204.0 million relates to unrealized fair value adjustments, with realized retained earnings of $90.7 million. ACFA is considering adopting Public Sector Accounting Standards commencing January 1, 2011, and only after detailed analysis of the accounting standards and needs of financial statement users, it is anticipated that loans and debt will be measured using amortized cost.

The Board has seen changes in 2010 with the election of Ron Ritter to the Board as Class E shareholder representative and the reappointment of myself for another three year term. I would very much like to thank all the Board members for their dedication and support of ACFA and its shareholders over the past year.

It is with sincere regret that I announce that ACFA's President Terrance Stroich (Terry), FCA will be leaving his position in August 2011. As many of you may be aware, Terry began his association as the General Manager of the Alberta Municipal Financing Corporation in 1993 while continuing his role as Director of Financial Institutions with the Province, and assumed the full time duties of the President in 2003. There were many issues that Terry has had to deal with and I would just like to mention a few; The Province withdrawals of ACFA equity of $400 million, interest rebate distribution of $188 million, school and hospital reorganizations, major rewrite of the *ACFA Act*, the establishment of ACFA's risk management policy as well as the implementation of new securities structure for colleges, universities and airport authorities, were just some of the highlights during his tenure. Like all matters at ACFA, each was completed with professionalism and in a manner which brought creditability to ACFA, and to himself. Terry's integrity and insistence on full and open disclosure has gone a long way to instilling a level of trust and respect of all of our shareholders toward ACFA, its Board and staff. As with each of the Chairs before me, as well as myself, our success as the Chair was made a lot more effective because of the support and professionalism that Terry displayed to the Board and his duties, and we thank him for it. Much more can be said but I will leave that for another time. I just want to express mine, the Board and the ACFA's shareholders' best wishes for his happiness, health and success in the future.

As always, it is a privilege and honour to serve as your Chair of the ACFA and to support its efforts to provide our shareholders with an efficient and effective organization for financing capital assets.



Lawrence R. Gordon
Chair

MANAGEMENT DISCUSSION AND ANALYSIS

(all amounts are cost/contractual)

The following provides management's analysis of the financial position and results of operations of the Alberta Capital Finance Authority for the year ended December 31, 2010 on a cost/contractual basis.

Loans

During 2010, the Authority's loan portfolio increased from $7,919 million to $9,525 million, an increase of $1,606 million. New loans issued during the year totalled $2,148 million, an increase of $179 million from new loans issued in 2009 and loan repayments totalled $542 million. In 2010, interest rates for all terms increased until August, declined for two months and increased toward the year end. The Authority is forecasting that loan demand will remain the same or trend lower as senior governments modify their support for infrastructure projects. Included in this review is an Analysis of New Loans Issued in 2010 by Jurisdiction and Purpose, a Schedule of Loans Outstanding at December 31, 2010 and the Ten-Year Loan Review 2001-2010.

Analysis of New Loans Issued

By jurisdiction and purpose for the year ended December 31, 2010

(thousands of dollars)

	Cities	Towns	Villages	Other	Total
Airport Infrastructure	$ -	$ -	$ -	$ 390,350	$ 390,350
Transit	368,621	-	-	113	368,734
Sewer and water	286,052	17,964	1,727	50,385	356,128
Parks and recreation	156,283	26,908	1,715	113,121	298,027
Roads and sidewalks	184,856	11,226	2,088	31,866	230,036
Electric, gas and telelphone	157,227	500	-	-	157,727
Student residences and ancillary operation	-	-	-	102,600	102,600
Municipal buildings	43,699	5,375	-	40,215	89,289
Land	22,516	2,598	-	24,827	49,941
Senior citizen lodges	-	900	-	42,900	43,800
Equipment and machinery	19,433	1,386	-	5,233	26,052
Health	-	-	-	15,000	15,000
Landfill development	12,880	-	-	1,340	14,220
Public housing	1,000	2,350	-	-	3,350
School	-	-	-	2,553	2,553
Total	$ 1,252,567	$ 69,207	$ 5,530	$ 820,503	$2,147,807

Schedule of Loans Outstanding

as at December 31, 2010
(thousands of dollars)

	Principal Outstanding 31-Dec-09	2-Jan-10 to 31-Dec-10 New Loans Issued	2-Jan-10 to 31-Dec-10 Principal Repaid	Principal Outstanding 31-Dec-10
By Jurisdiction				
Cities	$ 5,311,432	$ 1,252,567	$ 347,584	$ 6,216,415
Specialized Municipalities	376,281	206,332	18,558	564,055
Towns	379,346	69,207	36,358	412,195
Villages	10,923	5,530	1,472	14,981
Counties	192,230	76,805	19,198	249,837
Municipal Districts	33,185	10,847	3,886	40,146
Irrigation Districts & Regional Services Commissions	102,144	16,366	8,909	109,601
Regional Airport Authorities	584,712	390,000	32,790	941,922
Health Authorities	174,434	15,000	11,723	177,711
Colleges, Technical Institutes & Universities	576,033	102,600	21,971	656,662
School Districts & Divisions	177,953	2,553	39,280	141,226
	$ 7,918,673	**$ 2,147,807**	**$ 541,729**	**$ 9,524,751**
By Purpose				
Municipal - General	$5,764,617	$1,479,577	$379,822	$6,864,372
Municipal - Utility	630,134	157,727	50,892	736,969
ME *first!*	10,511	-	5,217	5,294
Airport Infrastructure	584,712	390,350	32,796	942,266
Health - Ancillary Operation	174,434	15,000	11,723	177,711
Student Residence, Parkade and Ancillary Operation	576,033	102,600	21,971	656,662
School - Core Operation	178,232	2,553	39,308	141,477
	$ 7,918,673	**$ 2,147,807**	**$ 541,729**	**$ 9,524,751**

Ten-Year Loan Review 2001-2010

(thousands of dollars)
(on a cost/contractual basis)

	2010	2009	2008
New loans issued during the year:			
By jurisdiction:			
Cities	$ 1,252,567	$ 1,600,849	$ 993,947
Specialized municipalities	206,332	46,201	16,538
Towns and villages	74,737	81,164	79,424
Counties, municipal and irrigation districts, and regional services commissions	104,018	80,657	43,698
Regional airport authorities	390,000	40,000	120,000
Health authorities	15,000	55,000	-
Colleges, technical institutes and universities	102,600	65,000	131,200
School districts and divisions	2,553	-	-
Total	**$ 2,147,807**	**$ 1,968,871**	**$ 1,384,807**
By purpose:			
Municipal	$ 1,637,304	$ 1,808,871	$ 1,133,607
ME *first!*	-	-	-
Airport infrastructure	390,350	40,000	120,000
Health – ancillary operation	15,000	55,000	-
Student residence, parkade and ancillary operation	102,600	65,000	131,200
School – core operation	2,553	-	-
Total	**$ 2,147,807**	**$ 1,968,871**	**$ 1,384,807**
Loans repaid during year	541,729	640,379	432,514
Loans outstanding at December 31	9,524,751	7,918,673	6,590,181
Loans outstanding at December 31 (*fair value*) (1)	10,326,592	8,347,277	7,075,010
New debt issued during year	6,126,386	6,895,208	2,624,881
Debt repaid during year	4,529,249	5,596,477	1,701,278
Debt outstanding at December 31	9,497,846	7,899,846	6,610,928
Debt outstanding at December 31 (*fair value*) (1)	9,901,524	8,177,483	6,924,812
Retained earnings (deficit) at December 31 (1)	294,745	171,019	(43,202)
Lending rate at December 31 *(based on 20-year term)*	4.124%	4.395%	5.150%

(1) Effective January 1, 2007, ACFA designated all loans and debt held for trading. Prior to 2007, loans and debt are reported at amortized cost.

2007	2006	2005	2004	2003	2002	2001
$ 878,623	$ 619,472	$ 355,350	$ 377,445	$ 379,647	$ 255,139	$ 297,004
70,009	159,519	6,794	15,115	26,830	17,742	13,133
59,207	40,338	44,219	53,569	31,122	20,211	25,657
54,408	47,806	49,656	43,542	40,056	10,489	9,449
100,000	20,000	75,000	20,000	-	370,000	-
11,308	99,673	37,920	19,000	-	-	-
66,750	60,863	82,998	71,112	19,302	91,300	17,825
-	-	-	7,680	-	1,260	271
$ 1,240,305	**$ 1,047,671**	**$ 651,937**	**$ 607,463**	**$ 496,957**	**$ 766,141**	**$ 363,339**
$ 1,048,329	$ 861,369	$ 446,841	$ 484,135	$ 477,655	$ 303,581	$ 345,243
13,918	5,766	9,178	5,536	-	-	-
100,000	20,000	75,000	20,000	-	370,000	-
11,308	99,673	37,920	19,000	-	-	-
66,750	60,863	82,998	71,112	19,302	91,300	17,825
-	-	-	7,680	-	1,260	271
$ 1,240,305	**$ 1,047,671**	**$ 651,937**	**$ 607,463**	**$ 496,957**	**$ 766,141**	**$ 363,339**
505,056	446,349	500,825	397,916	410,372	418,565	456,062
5,637,888	4,902,639	4,301,317	4,150,205	3,940,658	3,854,073	3,506,497
6,009,624	-	-	-	-	-	-
1,551,905	1,178,396	972,000	714,500	3,137,000	2,280,000	725,000
835,987	570,396	832,604	475,491	2,930,523	1,929,735	776,739
5,678,476	4,963,963	4,355,963	4,216,567	3,977,558	3,771,081	3,420,816
5,929,014	-	-	-	-	-	-
81,826	15,674	11,673	12,664	22,406	26,676	132,738
4.726%	4.365%	4.569%	4.923%	5.625%	5.875%	6.000%

Results of Operations

The Authority's interest income on loans, including income from investments exceeded interest expense on debt by $34.3 million, as the yield on the loans was slightly higher than the yield on the debt which resulted in income before unrealized gains or losses of $33.6 million. The net income after recognition of unrealized gains and losses amounts to $123.7 million.

As almost all loans, debt and derivatives are held to maturity, it is extremely unlikely that these unrealized gains will be realized, and therefore will be settled for their contractual value with no loss or gain to ACFA. Almost all of ACFA financing in 2010 was done with floating rate notes which require rates to be set quarterly and therefore do not require swaps to convert fixed rates to floating. Had ACFA used interest rate swaps the unrealized loss on derivatives would have been reduced by these swaps.

The Authority's goals are to provide local authorities with flexible funding at the lowest possible cost and to maintain the lowest administrative and new loan costs compared to other municipal borrowing authorities. Included below is a comparison of the Authority's 2010 costs with the 2010 financial data of other provincial municipal borrowing authorities.

Capital Finance Authorities Statistics - 2010

	Alberta	British Columbia	Nova Scotia
New loans to shareholders			
($ millions)	2,148	2,626	114
Total loans outstanding, net of unamortized discounts			
($ millions)	9,525	5,013	727
Administrative expense			
($ thousands)	873	1,483	334
($ per $ thousand of new loans)	.41	.56	2.93
($ per $ million of loans)	.09	.30	.46

Interest Rates

The Authority provides fixed rate semi-annual pay amortizing loans to its borrowers. Loan rates are based on actual rates for the interest rate swaps (or other floating rate instruments) executed to convert the loan to a floating rate to match the funding floating rate in order to reduce interest rate risk to the Authority. If a fixed rate instrument is used to fund the loan, then the loan rate will be based on the actual rate of the fixed rate instrument.

Comparative Loan Spreads with Infrastructure Ontario

In order to compare the Authority's loan rates provided to those of Ontario municipal borrowers, rates of Infrastructure Ontario were reviewed and compared to the rates that the Authority would have offered. As noted below, ACFA's rates were generally below Infrastructure Ontario's throughout the year. The spreads between ACFA's rates and those of Infrastructure Ontario's for 5 and 25 year rates at the beginning of the year was 20 and 23 basis points respectively. The spread between ACFA and Infrastructure Ontario increased over the year for both 5 and 25 year rates ending the year at 28 and 45 basis points respectively.

Debt

The debt of the Authority increased by $1,598 million net of discount and premium and short-term amortization of $12 million to $9,498 million. During the year, the Authority received $542 million in loan repayments while issuing $2,148 million in new loans. The Authority repaid $272 million under the Public Promissory Note Program. During the year the Authority borrowed $2,095 million in floating rate notes and $672 million in medium-term debt for terms from two to five years and to meet short-term requirements, borrowed over $3,360 million which was repaid during the year.

Sources of Capital
(thousands of dollars)

	Contractual Outstanding	
	2010	**2009**
Canada Pension Plan	$1,116,146	$1,116,146
Public	8,381,700	6,783,700
Total	$9,497,846	$7,899,846

Risk Management

Effective risk management is central to the ability to ensure a financially sound organization and includes identifying, assessing, managing and monitoring all forms of risk. The Authority is primarily exposed to:

- Market risk;
- Liquidity risk;
- Operational risk; and
- Credit risk.

The President of the Authority is responsible for identifying risks and recommending the appropriate policies and framework. The Board of Directors reviews and approves the risk management policies and implements specific reporting procedures to enable them to monitor the adherence to these policies.

Market Risk

Market risk is the impact on the Authority's income from changes in market factors such as interest rates and foreign exchange. The Authority requires that all borrowing be done in Canadian dollars or that borrowing in foreign currency be swapped into Canadian dollars. Currently, all borrowings are denominated in Canadian dollars. The primary source of interest rate risk is repricing risk which arises when there is a mismatch between the maturity and repricing of interest bearing assets and the maturity and repricing of interest bearing liabilities. This repricing risk also results from the Authority's willingness to allow for some prepayments on existing loans.

The prepayment policy is structured to protect the Authority from the significant losses that would occur in accepting additional prepayments of high interest rate loans and relending these funds at lower rates. The Authority, on three separate occasions, has reduced the rates on higher interest rate loans to 12%. The Authority does not have the ability to prepay or refinance its public debt and can only repay the Canada Pension Plan Investment Fund with a prepayment penalty based on current market rates which would not make it economically advantageous. The Authority's prepayment policy is an integral part of its long-term financial planning.

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on the Authority's earnings when maturities of its interest rate sensitive assets are not matched with maturities of its interest rate sensitive debt. The Authority mainly uses interest rate swaps for the purpose of managing its asset and liability position. The Authority's policy is to match the interest rate exposure on all new loans to the interest rate exposure of the debt used to fund these loans. In most cases, fixed interest rates on new loans and debt are swapped to floating rates so that the floating rates paid and received incorporate changes in the market rate at approximately the same time. In 2010 because of the spreads in the debt and swap markets, ACFA did most of its borrowing with floating rate and short-term notes, reducing the need for interest rate swaps. As markets normalize in the future ACFA will return to its previous activities.

Although the cost of swapping fixed rate debt to floating rate has decreased over the year, comparing these swap levels to borrowing in the floating rate market, made it advantageous to continue to borrow in this market. ACFA borrowed floating rate notes for terms of three to five years.

The Board recognizes the unique risks associated with the use of derivative financial instruments and has established policies and procedures to monitor and minimize exposure to the Authority. These policies and procedures limit the type of derivative financial instruments and circumstances where they can be used, the authorities required to approve the transaction and the appropriate segregation of duties to reduce operational risk.

Liquidity Risk

Liquidity risk is the risk that the Authority will not have sufficient cash to meet its obligations as they become due and also meet the loan requirements of our local authorities.

The Authority manages its liquidity risk by monitoring its cash flows on a daily basis and providing updated cash flow reports to the Board as required. Surplus funds are invested short-term in the Consolidated Cash Investment Trust Fund. When required, the Authority raises funds under a five-year Promissory Note Program and borrowing in the Canadian market. All borrowing is guaranteed by the Province of Alberta.

ACFA recognizes that because of its short-term borrowing activities in the past three years, necessitated by spreads in the debt and swap market, it must extend its duration of debt by reducing its activity in the short-term and floating rate market and borrowing in the long-term market.

Operational Risk

Operational risk is the risk associated with a breakdown in internal controls, systems or procedural failures, human errors or malfeasance. These risks can never be fully eliminated but are minimized by establishing appropriate policies and sound internal controls through an appropriate segregation of duties, accountability and reporting practices.

The audit of the financial statements was made in accordance with Canadian generally accepted auditing standards and in completion of the audit, the auditor considers internal controls relevant to the Authority's preparation and presentation of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The objective of a financial statement audit is to obtain reasonable assurance whether the financial statements are free of material misstatement. Accordingly, an audit would not usually identify all matters that may be of interest to management and the Audit Committee, however any weaknesses identified in internal controls over financial reporting controls, or other non-trivial matters, are communicated to management and the Audit Committee.

Credit Risk

Credit risk is the risk of loss due to a borrower or counterparty failing to meet their obligations to the Authority. Historically, the Authority has not been required to record any provisions or allowances regarding credit losses nor has it suffered any such losses. The Board has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability.

Credit risk on counterparty default arises with the use of derivatives. To control this risk, the Authority uses counterparty limits established for the Province and uses only counterparties believed to have a good credit standing (A+ or greater). The Authority is not exposed to credit risk for the full face value (notional amount) of the derivative contracts, but only to the potential replacement cost if the counterparties fail. Under Credit Support Annexes entered into under the Province of Alberta's derivative master agreements, counterparties and or ACFA through the Province is obligated to provide collateral based on established thresholds which further enhances the Authority's credit position. This exposure is represented by the current replacement cost of all outstanding contracts in a favourable position. For additional information, see Note 7 in the Notes to the Financial Statements.

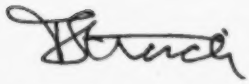
ALBERTA CAPITAL FINANCE AUTHORITY

FINANCIAL REPORTING RESPONSIBILITY OF MANAGEMENT

Management of the Alberta Capital Finance Authority prepared these financial statements and is responsible for their reliability, completeness and integrity. They conform in all material respects to Canadian generally accepted accounting principles and the requirements of the *Alberta Capital Finance Authority Act*.

Management maintains the necessary accounting and internal control systems designed to ensure the timely production of reliable and accurate financial information, the protection of assets (to a reasonable extent) against loss or unauthorized use and the promotion of operational efficiency. The Audit Committee oversees management's responsibilities for financial reporting, and internal control systems over financial reporting controls, and recommends approval of the financial statements and annual report to the Board of Directors.

The Auditor General of Alberta is designated as the external auditor in the *Alberta Capital Finance Authority Act*. The Audit Committee reviewed these financial statements with the external auditor in detail before recommending their approval to the Board of Directors. The Board then approves the financial statements.



FCA
President

March 9, 2011

Edmonton, Alberta

AUDITOR GENERAL
Alberta

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of the Alberta Capital Finance Authority

Report on the Financial Statements
I have audited the accompanying financial statements of the Alberta Capital Finance Authority, which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of net income, comprehensive income and retained earnings, and cash flow for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Merwan N. Saher, CA

Auditor General

March 9, 2011

Edmonton, Alberta

BALANCE SHEETS

as at December 31
(thousands of dollars)

	2010	2009
Assets:		
Cash (Note 4)	$ 30,881	$ 13,438
Loans to local authorities (Note 5)	10,326,592	8,347,277
Derivatives in favourable position (Note 7)	316,145	248,935
	$ 10,673,618	$ 8,609,650
Liabilities and Shareholders' Equity:		
Liabilities:		
Accounts payable	$ 655	$ 672
Debt (Note 6)	9,901,524	8,177,483
Derivatives in unfavourable position (Note 7)	476,630	260,412
	10,378,809	8,438,567
Commitments (Note 12)		
Shareholders' equity:		
Share capital (Note 9)		
Issued and fully paid:		
6,346 shares (2009 - 6,345 shares)	64	64
Retained earnings	294,745	171,019
	294,809	171,083
	$ 10,673,618	$ 8,609,650

The accompanying notes are part of these financial statements.

These financial statements were approved by the Board of Directors.

L.R. Gordon
Chair of the Board

T.S. Stroich, FCA
President

STATEMENTS OF NET INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

for the year ended December 31
(thousands of dollars)

	Budget (Note 13)	2010	2009
Interest Income:			
Loans	$ 384,320	$ 420,256	$ 376,028
Swaps (pay fixed receive floating)	(210,214)	(224,832)	(186,329)
Investments (Note 4)	400	622	660
	174,506	196,046	190,359
Interest Expense:			
Debt	256,761	261,136	267,543
Swaps (receive fixed pay floating)	(108,434)	(102,324)	(102,001)
Commission fees	9,960	2,919	1,405
Amortization of net discounts on debt	4,433	-	-
	162,720	161,731	166,947
Net interest income	11,786	34,315	23,412
Other Income:			
Loan prepayment fees	-	123	224
Net interest income and other income	11,786	34,438	23,636
Non-Interest Expense:			
Administration and office expenses (Note 10)	1,005	873	845
Income before unrealized gains (losses)	10,781	33,565	22,791
Unrealized gain (loss) on loans	-	370,539	(55,031)
Unrealized (loss) gain on debt	-	(131,675)	39,495
Unrealized (loss) gain on derivatives	-	(148,703)	206,966
Total unrealized gain	-	90,161	191,430
Net income and comprehensive income	10,781	123,726	214,221
Retained earnings (deficit), beginning of year	57,961	171,019	(43,202)
Retained earnings, end of year	$ 68,742	$ 294,745	$ 171,019

STATEMENTS OF CASH FLOW

for the year ended December 31
(thousands of dollars)

	2010	2009
Operating Activities:		
Interest received:		
- Loans	$ 417,579	$ 377,219
- Investments	622	660
- Swaps (receive fixed pay floating)	106,321	96,422
Loan prepayment fees	123	224
Commission fees	(2,919)	(1,405)
Administration and office expenses	(877)	(928)
Interest paid:		
- Debt	(265,920)	(274,221)
- Swaps (pay fixed receive floating)	(228,545)	(161,100)
Cash flows from operating activities	26,384	36,871
Investing Activities:		
Loan repayments	541,729	640,379
New loans issued	(2,147,807)	(1,968,871)
Cash flows used in investing activities	(1,606,078)	(1,328,492)
Financing Activities:		
Debt issues	6,126,386	6,895,208
Debt redemptions	(4,529,249)	(5,596,477)
Cash flows from financing activities	1,597,137	1,298,731
Net increase in cash	17,443	7,110
Cash, beginning of year	13,438	6,328
Cash, end of year	$ 30,881	$ 13,438

Notes to the Financial Statements

December 31, 2010, with comparative figures for 2009

(all amounts presented in thousands of dollars, except share amounts)

1. **Authority**

   The Alberta Capital Finance Authority (ACFA) operates under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended. Under the Act, ACFA is restricted to making loans only to its shareholders.

2. **Future Changes to Accounting Policies**

   In February 2008, the CICA's Accounting Standard Board confirmed that Canadian public companies will have to adopt International Financial Reporting Standards (IFRS) effective for the fiscal years beginning on or after January 1, 2011. ACFA was considering adopting these standards.

   In October 2009, the Public Sector Accounting Standards Board (PSAB) announced that government business enterprises are required to adopt IFRS and that the definition of government business-type organizations would cease to exist. Such organizations would have a choice of adopting either IFRS or Public Sector Accounting Standards. In January 2010, PSAB issued an exposure draft that deals with *First-time Adoption of Public Sector Accounting Standards by Government Organizations* which would be effective for fiscal periods beginning on or after January 1, 2011. ACFA has determined that it does not meet the definition of a government business enterprise and currently plans to adopt the PSAB accounting standards for its fiscal year beginning January 1, 2011.

3. **Significant Accounting Policies and Reporting Practices**

   These financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and include the following significant accounting policies:

   a) Measurement Uncertainty

   The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Measurement uncertainty exists in the collectability of the loans to local authorities and the estimate of fair value of financial instruments.

   b) Comprehensive Income

   Comprehensive income is composed of net income and other comprehensive income. Other comprehensive income may include any unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivative instruments designated as cash flow hedges. Currently ACFA has no other comprehensive income.

c) Valuation of Financial Instruments

All financial instruments which include loans and debt have been classified as held-for-trading and are measured at fair value at the settlement date.

i) Loans

The fair value of loans is calculated using future interest and principal cash flows for all loans using a discount factor curve to determine the present value of each cash flow.

The discount factor curve is calculated using the ACFA's estimated market borrowing rates as a base and adding a premium of 12 basis points to this curve. ACFA's borrowing rates are used as a base as it is assumed based on payment history and security covenants in place, that the loan portfolio has credit risk similar to that of ACFA. A premium of 12 basis points is added to these rates to reflect that financial securities with irregular payments would require a higher rate if sold in the market. The 12 basis point premium is based on historical averages and is not adjusted to reflect short-term changes in market conditions.

ii) Debt

The fair value of debt is calculated using market rates for ACFA debt based on credit spread indications for new debt issues received from ACFA's borrowing syndicate managers and are determined by taking Government of Canada bond interest rates at the close of business on the last business day of the period and adding the indicative new issue spread to these rates.

Bonds (i.e. bullets with no options with the entire principal amount paid at maturity) are valued by interpolating the yield to maturity for each individual bond from the calculated indicative borrowing rates. This yield to maturity is used to calculate the market value, including accrued interest, for each bullet bond using common bond pricing methodology.

Structured notes, including step-up notes, accrual notes and floating rate notes are valued using formulas that require a discount factor curve, which is computed from the indicative borrowing rates and inputs on option volatility as estimated in the swap market.

iii) Derivatives

ACFA has chosen not to designate its interest rate swaps as hedges. Therefore hedge accounting is not applied and derivatives are carried on the balance sheets at fair value and changes in fair value are recorded in income. Net interest paid or received on the pay fixed receive floating interest rate swaps is presented as part of interest income, and the net interest paid or received on the receive fixed pay floating interest rate swaps is presented as part of interest expense.

Fair values are determined using models based on third party valuation software which takes into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. Fair values have been segregated between those contracts which are in a favourable position (positive fair value) and those contracts which are in an unfavourable position (negative fair value) and are recorded as derivative assets and derivative liabilities respectively. Changes in the fair value of derivative instruments are recorded in income.

4. Cash

Cash is on deposit in the Consolidated Cash Investment Trust Fund (Fund) of the Province of Alberta and is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at December 31, 2010, securities held by the Fund have a time-weighted return of .84% per annum (December 31, 2009 – 1.39% per annum).

5. Loans to Local Authorities

Loans to Local Authorities	2010	2009
Fair value	$ 10,326,592	$ 8,347,277
Contractual principal	$ 9,524,751	$ 7,918,673
Accrued interest receivable	97,436	94,738
	$ 9,622,187	$ 8,013,411

The fair value of loans is calculated using future interest and principal cash flows for all loans using an interest rate curve to determine the present value (Note 3c(i)). As at the balance sheets date, the estimated sensitivity of the fair value of loans to a change in the interest rate of one (1) basis point is $7,514 (2009 - $5,611).

Credit risk is the risk of loss due to borrowers failing to meet their obligations to ACFA. Historically, ACFA has not needed to record any provisions or allowances regarding credit losses nor has it suffered any such losses. ACFA has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability.

As at and for the year ended December 31, 2010, all loans were performing in accordance with related terms and conditions and none were in arrears, nor were any loans considered impaired. Since ACFA considers that there has been no change in the credit quality of its borrowers, the change to fair value of loans is based only on the change in the market interest rate.

6. Debt

Debt (Schedule 1)	2010	2009
Fair Value	$ 9,901,524	$ 8,177,483
Contractual principal	$ 9,497,846	$ 7,899,846
Unamortized discount	(3,379)	(2,129)
Accrued interest payable	45,274	50,045
	$ 9,539,741	$ 7,947,762

The fair value of debt is calculated using market rates at the close of business on the last business day of the year and adding the indicative new issue spreads to these rates. The determination of fair value also considers the impact of a change in ACFA's credit worthiness on the fair value of its debt. ACFA's credit rating issued by the major rating agencies together with the Province of Alberta, guarantor of its debt, remains at the same level as for the previous year and therefore has no impact on its fair value of debt. As at the balance sheets date, the estimated sensitivity of the fair value of debt to a change of one (1) basis point in the market rate used to calculate fair value is $3,372 (2009 - $3,644).

The debt of ACFA is fully guaranteed by the Province of Alberta.

Debt with a fair value of $178,356 (contractual principal - $166,000) (2009: fair value - $177,879; contractual principal - $165,000) is comprised of a combination of various issues of step-up and accrual notes whereby ACFA has the option of extending or calling the debt, at predetermined extension or call dates. In the event that ACFA exercises its option to call or not extend the debt at the predetermined extension or call dates, the debt is redeemed at the contractual principal amount with no gain or loss to ACFA. In the event ACFA does not exercise its option to call or redeem the debt at the predetermined extension or call dates, the contractual principal amount is due at the final maturity date (Schedule 1).

For the next five years contractual debt redemption requirements, with the assumption that the step-up and accrual notes are redeemed at the first extendible date and all other debt at the maturity date, are as follows:

	Debt Redemption
2011	$ 1,750,200
2012	1,510,000
2013	1,945,000
2014	656,500
2015	800,000
	$ 6,661,700

7. Derivative Financial Instruments

To minimize its interest rate risk on loans and debt issued after January 1, 2004, interest rate swaps are used to swap fixed rate interest on loans and debt to floating rate so that floating rates paid and received incorporate changes in the market rates at approximately the same time.

The notional amounts of interest rate swaps represent the amount to which the fixed and floating rates are applied in order to calculate the exchange of cash flows. The notional amounts are not recorded in the balance sheets. They represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments.

Interest rate swaps with a notional value of $166,000 (2009 - $165,000) related to the step-up and accrual notes have the option which allows the counterparty to extend or call the swap at predetermined extension or call dates. If the counterparty exercises their option to call or redeem the interest rate swap at the predetermined extension or call date, ACFA will in turn exercise their option to call or redeem the corresponding debt instrument and there will be no gain or loss to ACFA.

The notional amounts of interest rate swaps are summarized as follows:

	As at December 31					
Maturities	**Within 1 Year**	**1 to 2 Years**	**3 to 5 Years**	**6 to 10 Years**	**Over 10 Years**	**Total**
Interest rate swaps - 2010	$ 63,074	$ 105,430	$ 1,054,489	$ 2,161,883	$ 7,160,721	$ 10,545,597
Interest rate swaps - 2009	$ 80,435	$ 79,627	$ 513,461	$ 2,134,207	$ 6,022,923	$ 8,830,653

The notional amounts of the interest rate swaps related to the step-up and accrual notes have been included in the above table based on their maturity date.

The cost of replacing the remaining cash flows of the interest rate swaps at the prevailing prices and market rates are summarized as follows:

			Current Replacement Cost	
	Notional Outstanding	**Net Fair Value**	**Contracts in Favourable Position**	**Contracts in Unfavourable Position**
Interest rate swaps - 2010	$ 10,545,597	$ (160,485)	$ 316,145	$ (476,630)
Interest rate swaps - 2009	$ 8,830,653	$ (11,477)	$ 248,935	$ (260,412)

The contractual amount of accrued interest receivable and payable on interest rate swaps as at December 31 are as follows:

	2010	2009
Accrued interest receivable	$ 12,081	$ 16,078
Accrued interest payable	$ 33,997	$ 37,710

The fair value of interest rate swaps has been calculated using valuation methodologies that take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. The determination of fair value also considers the impact of the counterparty's credit worthiness on the fair value of derivatives. As at the balance sheets date, the estimated sensitivity of the fair value of derivatives in a favourable or unfavourable position to a change in the market rate of one (1) basis point is $1,191 and $5,504 respectively (2009 - $541 and $3,078 respectively).

Current credit exposure is limited to the amount of loss that ACFA would suffer if every counterparty to which ACFA was exposed were to default at once and is represented by the current replacement cost of all outstanding contracts in a favourable position. ACFA is part of the exposure limit established for the Province of Alberta and actively monitors its exposure and minimizes credit risk by only dealing with counterparties believed to have a good credit standing (A+ or greater).

Under the Province of Alberta's master agreement with counterparties, ACFA can in the event of a counterparty default, net its favourable and unfavourable positions with a counterparty. In addition, under the agreement, one Credit Support Annex (CSA) has been signed with a counterparty which will require ACFA or the counterparty to provide collateral based on established thresholds which further enhances ACFA's credit position. As at December 31, 2010 neither ACFA nor the counterparty is required to post collateral under the CSA.

Derivative assets and liabilities are presented gross on the balance sheets. Although the amounts do not qualify for offset, derivative instruments in a favourable position of $296,053 at December 31, 2010 (2009 - $203,112) are subject to master netting arrangements which reduces ACFA's credit exposure by an equivalent amount.

8. Capital Management

ACFA is an agent of the Province of Alberta and a crown corporation whose debt is fully guaranteed by the Province of Alberta which provides ACFA access to capital markets to obtain low cost debt financing.

The business of ACFA is to provide its shareholders with flexible financing for capital projects and to manage its assets and liabilities and business affairs in such a manner so as to enhance its ability to effectively carry out its activities in an economical and effective manner.

ACFA's objective when managing capital, designated as retained earnings, is to safeguard its ability to continue as a going concern, to continue to benefit its shareholders by providing loans at the lowest possible cost and operate on a breakeven basis while maintaining positive retained earnings before adjustments for fair value. Capital management objective, policies and procedures are unchanged since the preceding year.

As almost all loans, debt and interest rate swaps are held to maturity or to the earliest call date and operate in accordance with the terms of the contract, gains or losses are expected to be realized over the lives of these instruments. As such, ACFA's retained earnings of $294,745 at December 31, 2010 (2009 – $171,019), includes retained earnings of $90,694 (2009 - $56,742) determined before the effect of the accumulated unrealized fair value adjustments, and retained earnings of $204,051 (2009 – $114,277), related to accumulated unrealized fair value adjustments.

9. Share Capital

Particulars of share capital valued at $10.00 per share with voting rights, established in legislation, which relate only to the election of a director representing the shareholders are as follows:

Class	Restricted to		Number of Shares Authorized	Number of Shares Issued and Fully Paid	Total Dollar Amount
A	Province of Alberta		4,500	4,500	$45,000
B	Municipal authorities, airport and health authorities		1,000	890	8,900
C	Cities		750	588	5,880
D	Towns and villages		750	285	2,850
E	Educational authorities		500	83	830
		2010	7,500	6,346	$63,460
		2009	7,500	6,345	$63,450

During the year, seven Class B and three Class C shares were issued and nine Class D shares were cancelled.

10. Directors' and Audit Committee Fees and Related Party Transactions

Directors' and Audit Committee fees paid by ACFA are as follows:

	2010		2009	
	Number of Individuals	Total	Number of Individuals	Total
Board/Audit Committee Chairs	2	$ 11	2	$ 11
Board/Audit Committee members	8	$ 28	8	$ 26

There are two additional Board members who are employees of the Province of Alberta and do not receive compensation from ACFA.

ACFA has advanced loans to local authorities under the ME*first!* Municipal Energy Efficiency Assistance Program (the "Program") on behalf of Alberta Municipal Affairs and Alberta Environment. Under the Program, principal was advanced to qualifying municipalities by ACFA and repayments of principal are made by the municipality; however, the interest is paid by the Province of Alberta. The Program has been discontinued but the loans will continue until they are paid out. Included in the balance of loans to local authorities at December 31, 2010 is principal of $5,294 (2009 - $10,511), upon which, interest of $315 (2009 - $560) has been recorded in interest income from loans.

ACFA has no employees. Included in administration and office expenses of $873 (2009 - $845) is the amount of $451 (2009 - $488) that was paid to the controlling shareholder, the Province of Alberta for services at prices measured at the exchange amount, which approximate market.

11. Financial Risk Management

In accordance with ACFA's Derivative Policy, ACFA manages its interest rate risk by matching its debt maturity profile to the forecast cash flows and their effect on ACFA's equity. For most loans made after January 1, 2004, ACFA uses interest rate swaps to swap fixed rate loan interest to floating, floating rate notes which reprice at approximately the same time as the loans, debt rate swaps to swap fixed rate debt interest to floating and forward rate agreements to minimize the exposure related to the mismatch of reset dates of the loan and debt swaps.

ACFA's management is responsible for monitoring performance and reporting to the Board of Directors and recommending changes to the Derivative Policy. The Board of Directors is responsible for governance and strategic direction through its annual review and approval of the policy.

a) Credit Risk

Credit risk is related to the possibility that the borrower or the counterparty to a financial instrument cannot fulfill its contractual obligation to ACFA.

Credit risk from borrowers is fully explained in Note 5 and ACFA does not believe that it has any credit exposure on loans.

Credit exposure with derivative counterparties is further explained in Note 7.

b) Interest Rate Risk

Interest rate risk refers to the potential impact of changes in interest rates on ACFA's earnings when maturities of its interest rate sensitive assets are not matched with the maturities of its interest rate sensitive debt. The following table summarizes the contractual principal amounts of ACFA's interest sensitive assets and liabilities, with the assumption that the step-up and accrual notes are redeemed at the first extendible date and all other debt at the maturity date, based on the earlier of repricing or principal repayments:

As at December 31

Maturities		Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	2010 Total	2009 Total
Assets								
Cash		$ 30,881	$ -	$ -	$ -	$ -	$ 30,881	$ 13,438
Accrued Interest Receivable		109,519	-	-	-	-	109,519	110,839
Loans to Local Authorities		350,254	648,971	2,125,902	2,253,523	4,146,101	9,524,751	7,918,673
Effective Rate		4.8%	4.9%	4.9%	4.9%	5.2%	4.9%	5.2%
Total		490,654	648,971	2,125,902	2,253,523	4,146,101	9,665,151	8,042,950
Liabilities								
Accrued Interest Payable		$ 79,271	$ -	$ -	$ -	$ -	$ 79,271	$ 87,755
Debt	(i)	4,945,200	510,000	1,206,500	1,622,367	1,213,779	9,497,846	7,899,846
Effective Rate		4.3%	4.9%	4.8%	5.5%	5.5%	5.0%	5.1%
Total		5,024,471	510,000	1,206,500	1,622,367	1,213,779	9,577,117	7,987,601
Cumulative Gap 2010		$ (4,533,817)	$ 138,971	$ 919,402	$ 631,156	$2,932,322	$ 88,034	
Cumulative Gap 2009		$ (3,131,404)	$ 200,769	$ 751,878	$ 387,146	$1,846,960		$ 55,349

(i) Includes various floating rate notes in the aggregate amount of $3,899,200 with rates of Canadian Deposit Offered Rate plus predetermined spreads.

Interest rate swaps of pay fixed/receive floating and receive fixed/pay floating in the notional amounts of $7,599,318 and $2,946,279 respectively (2009 - $6,115,703 and $2,714,950 respectively) have not been included in the above table.

The interest rate sensitivity analysis below has been determined based on the exposure to interest rate fluctuations for both interest rate sensitive assets and liabilities at the balance sheets date. Interest rate sensitive assets at December 31, 2010 consist of cash on hand, accrued interest receivable and loans which have been swapped from fixed to floating. Interest rate sensitive liabilities at December 31, 2010 consists of accrued interest payable, debt which has been swapped from fixed to floating, debt due within one year and floating rate debt.

The potential impact of an immediate and sustained increase of 50 basis points in interest rates with all other variables held constant throughout the year would

have the following impact on interest income and interest expense from interest rate sensitive assets and liabilities respectively:

		2010		2009
Assets	$7,771,347 X .5% =	$ 38,857	$6,317,668 X .5% =	$ 31,588
Liabilities	$7,555,405 X .5% =	37,777	$6,055,906 X .5% =	30,279
Net interest income		$ 1,080		$ 1,309

c) Liquidity Risk

Liquidity risk is the risk that ACFA will not have sufficient cash to meet its obligations as they become due and also meet the loan requirements of our local authorities.

ACFA manages its liquidity risk by monitoring its cash flows on a daily basis. Surplus funds are invested in short-term investments or the Consolidated Cash Investment Trust Fund. To the extent there are differences in maturities between the collection of principal and interest from loans, and repayment of principal and interest on debt, ACFA manages this by raising funds, when required, in the Canadian market. Access to this market is enhanced as ACFA is an agent of, and its debt is unconditionally guaranteed by, the Province of Alberta. The maturities of ACFA's contractual cash flows from financial liabilities at December 31, 2010 are as follows:

Financial liabilities		**2011**	**2012**	**2013**	**2014 and Beyond**
Accounts payable		$ 655	$ -	$ -	$ -
Debt - contractual repayments of principal	(1)	1,594,200	1,500,000	1,945,000	4,458,646
Debt - contractual payments of interest		298,548	211,598	182,148	1,163,909
Derivatives in unfavourable position - pay fixed, receive floating interest rate swaps - net		210,395	206,027	197,203	1,830,265
Commitments		222,054	54	27	-
Total		$ 2,325,852	$ 1,917,679	$ 2,324,378	$ 7,452,820

Although disclosure is only required of the liquidity analysis for all financial liabilities, management has determined that the following liquidity analysis of financial assets is necessary to evaluate the nature and extent of the liquidity risk:

Financial assets		**2011**	**2012**	**2013**	**2014 and Beyond**
Loans to local authorities - contractual collection of principal	(2)	$ 350,254	$ 648,971	$ 513,152	$ 8,012,374
Loans to local authorities - contractual collection of interest	(2)	449,100	430,327	398,091	3,259,131
Derivatives in favourable position - receive fixed, pay floating interest rate swaps - net	(2)	87,400	85,906	87,201	701,845
Total		$ 886,754	$ 1,165,204	$ 998,444	$ 11,973,350

(1) Cash flows for debt contractual repayment of principal are determined with the assumption that the step-up and accrual notes will not be redeemed until maturity.
(2) The amounts presented represent the contractual collection of principal and interest and assumes no prepayments or no credit default on behalf of the counterparties, or the local authorities.

Where the amount of interest payable is not fixed, as is the case for issued debt that has a variable interest rate or the floating leg of an interest rate swap, the amounts included in the above table have been determined by reference to the conditions existing at the balance sheets date.

The interest and principal payments as well as other payments for derivative financial instruments are relevant for the presentation of the maturities of the cash flow. Future cash flows are not discounted.

d) Fair Value Hierarchy

Financial instruments recorded at fair value on the balance sheets are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the balance sheets, classified using the fair value hierarchy described above:

	Level 1	Level 2	Level 3	Total financial assets and financial liabilities at fair value 2010	2009
Financial assets					
Cash	$ 30,881	$ -	$ -	$ 30,881	$ 13,438
Loans to local authorities	-	10,326,592	-	10,326,592	8,347,277
Derivatives in favourable position	-	316,145	-	316,145	248,935
Total financial assets	$ 30,881	$10,642,737	$ -	$10,673,618	$ 8,609,650
Financial liabilities					
Debt	$ -	$ 9,901,524	$ -	$ 9,901,524	$ 8,177,483
Derivatives in unfavourable position		476,630	-	476,630	260,412
Total financial liabilities	$ -	$10,378,154	$ -	$10,378,154	$ 8,437,895

During the year, there has been no transfer of amounts between Level 1 and Level 2.

12. Commitments

a) Lease

ACFA has obligations under an operating lease for the rental of premises, expiring in July 2013 at an annual minimum as follows:

2011 – $54
2012 – $54
2013 – $27

b) Loan

In the normal course of business, ACFA enters into loan commitments to provide customers with sources of credit.

Commitments to extend credit represent undertakings to make credit available in the form of loans for specific amounts and maturities, subject to certain conditions and are recently authorized loans not yet drawn down.

These loan arrangements are subject to ACFA's normal credit standards and collateral is obtained where appropriate. The loan amounts represent the maximum credit risk exposure to ACFA should the loans be fully drawn. The loan commitments represent future cash requirements and as at December 31 were:

	2010	2009
Loan commitments as at December 31	$ 222,000	$ 27,025

13. Budget

The 2010 budget was approved by the Board of Directors on December 10, 2009 and is unaudited. For purposes of budget preparation, financial instruments are reflected at amortized cost and fair values are not included.

14. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

SCHEDULE OF DEBT

as of December 31
(thousands of dollars)

Schedule 1

Maturity Date	First Extendible Date	Interest Rate	Contractual Principal Outstanding	Fair Value	
Canada Pension Plan Investment Fund/ CPP Investment Board					
Oct 01, 2020		6.2800	$ 222,367	$ 274,553	
Jun 01, 2022		6.0600	100,000	121,977	
Apr 05, 2023		5.8900	50,000	60,920	
Dec 01, 2023		5.5000	150,000	175,911	
Dec 03, 2024		5.1800	78,000	88,911	
Nov 03, 2026		4.4900	200,000	212,665	
Nov 03, 2031		4.5000	125,396	132,279	
Nov 02, 2032		4.8300	190,383	209,756	
Total			1,116,146	1,276,972	
Public					
Jan 11, 2011		0.9767	80,000	79,974	
Jan 18, 2011		0.9800	100,000	99,948	
Feb 14, 2011		0.9654	85,000	84,887	
Feb 16, 2011		0.9059	155,000	154,785	
Feb 22, 2011		0.8861	55,000	54,913	
Apr 14, 2011		1.0769	70,000	69,767	
Apr 18, 2011		1.0910	95,000	94,669	
Sep 01, 2011		5.7000	200,000	209,700	
Dec 08, 2011		1.5000	704,200	706,232	(iii)
Dec 15, 2011		4.4350	50,000	51,549	
Jun 01, 2012		5.8500	500,000	532,478	
Jun 15, 2012		1.6200	550,000	552,667	(iii)
Oct 09, 2012		1.3700	450,000	450,684	(iii)
Feb 05, 2013		1.3700	625,000	623,898	(iii)
Apr 26, 2013		1.3700	500,000	478,858	(iii)
Oct 01, 2013		1.4100	520,000	518,265	(iii)
Dec 02, 2013		5.0000	300,000	325,776	
Jul 02, 2014		3.0940	106,500	106,179	
Jul 02, 2014		1.6900	550,000	548,340	(iii)
Nov 19, 2014	Nov 19, 2011	2.0000	17,000	17,089	(i)
Mar 23, 2015	Mar 23, 2011	2.0000	26,000	26,305	(i)
Mar 24, 2015	Mar 24, 2011 *	2.0000	17,000	17,250	(i)
May 21, 2015	May 21, 2011	2.0500	10,000	10,124	(i)
May 27, 2015	May 27, 2011	2.0500	10,000	10,108	(i)

Maturity Date	First Extendible Date	Interest Rate	Contractual Principal Outstanding	Fair Value	
Jun 01, 2015		4.9000	200,000	220,733	
Jun 15, 2015		3.0500	600,000	614,300	
Sep 15, 2015	Sep 15, 2011	2.2500	13,000	13,086	(i)
Dec 21, 2015	Dec 21, 2012	2.0000	10,000	9,921	(i)
Jun 15, 2016		4.3500	600,000	648,552	
Jun 15, 2017		4.6500	700,000	767,031	
Jun 01, 2018		5.1500	100,000	112,876	
Oct 21, 2019	Apr 21, 2011	2.9000	12,000	11,858	(i)
Dec 22, 2019	Dec 22, 2011	3.0500	10,000	9,879	(i)
Dec 01, 2023		5.1000	20,000	22,639	
Jul 06, 2025	Jan 06, 2011 *	5.0200	16,000	21,013	(ii)
Dec 15, 2025		4.4500	300,000	316,496	
Oct 11, 2030	Oct 11, 2011	5.1600	15,000	18,887	(ii)
Dec 15, 2030	Jun 15, 2011	5.1600	10,000	12,836	(ii)
Total			8,381,700	8,624,552	
Total debt 2010			$ 9,497,846	$ 9,901,524	
Total debt 2009			$ 7,899,846	$ 8,177,483	

(i) These are step-up notes extendible at the ACFA's option which pay interest periodically at a predetermined rate with principal paid on termination.

(ii) These are accrual notes extendible or callable at the ACFA's option which accrue interest compounded semi-annually or annually, and pay interest and principal on termination.

(iii) These are floating rate notes which pay interest quarterly at Canadian Deposit Offered Rate (CDOR) plus predetermined spreads with principal paid on termination. The interest rates provided are based on the CDOR as of the balance sheets date plus the contractual predetermined spread.

(*) Subsequent to year end these extendible step-up and accrual notes and related derivatives were called on the first extendible date at the contractual principal amount.